

June 4, 2007

Proposition 98 Overview

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented To:
Budget Conference Committee



Proposition 98 Ongoing Funding

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- ☒ The Governor and Senate fund at Proposition 98 minimum guarantee.
- ☒ The Assembly provides \$58 million more than required by the Proposition 98 minimum guarantee. The additional funds are primarily designated for higher enrollment growth at the community colleges.
- ☒ We recommend the Legislature fund at the Governor/Senate level, with the same split between K-12 education and community colleges (89.17 percent and 10.83 percent, respectively).
- ☒ At the Governor/Senate/LAO-recommended level, ongoing Proposition 98 funding for 2007-08 would increase by \$2.4 billion, or 4.4 percent, from the *2006-07 Budget Act*.

(Dollars in Millions)

	2006-07 Budget Act	2007-08 May Revision	Change	
			Amount	Percent
K-12	\$49,114	\$51,224	\$2,110	4.3%
Community Colleges	5,894	6,223	329	5.6
Other	114	119	5	4.6
Totals	\$55,122	\$57,566	\$2,444	4.4%

Major Proposition 98 Ongoing Spending Proposals

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- ☒ Both houses fund a 4.53 percent cost-of-living adjustment (COLA) for K-14 education (\$2.4 billion).
- ☒ Both houses fully fund enrollment and make various corresponding adjustments to K-14 education programs.
- ☒ Both houses approved the Governor's January proposal to increase the Proposition 98 share of child care funding (\$269 million).

The K-12 Proposition 98 Ongoing Shortfall

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- ☒ The May Revision contained a technical error relating to K-12 revenue limits. The error resulted in Proposition 98 ongoing expenditures for K-12 education exceeding identified funding by \$364 million.
- ☒ The administration did not submit a revised Proposition 98 package that closed the shortfall.
- ☒ Both houses attempted to reduce the shortfall by rejecting most proposed augmentations beyond growth, COLA, and child care.
 - The Senate reduced the shortfall to \$102 million.
 - The Assembly reduced the shortfall to \$143 million.
- ☒ Both houses chose to cover the remaining ongoing shortfall with one-time Proposition 98 funds.
- ☒ The remaining shortfall will carry forward into 2008-09 and could be covered at that time with any combination of ongoing funds or newly identified one-time funds.
- ☒ Our most recent fiscal forecast suggests the Proposition 98 budget will be tight in 2008-09—meaning few dollars are likely to remain after covering growth and COLA. Thus, we recommend keeping the ongoing shortfall as small as possible.

The LAO-Recommended Proposition 98 Ongoing Package

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The LAO-recommended conference package leaves an ongoing K-12 shortfall of \$58 million—smaller than either house. It reduces the shortfall by:

- Building on the Senate’s approach to reexamine the funding needed to support the High Priority Schools program.
- Building on the Assembly’s approach to capture discretionary K-12 attendance-related savings.
- Taking the lower funding level of the two houses for all other K-12 items.



The LAO-recommended conference package for community colleges:

- Takes the Senate proposal to rebench apportionments downward by \$80 million to align funding with enrollment.
- Funds enrollment growth well in excess of the statutory growth guideline.
- Funds two part-time faculty programs with \$10 million in ongoing funds instead of one-time funds.

Proposition 98 Conference Issues—Ongoing Funds

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(In Millions)

Page	Description	Senate	Assembly	LAO Compromise	Comment on Compromise
K-12					
234	Summer School	—	\$0.2	—	Makes technical adjustment.
237	High Priority Schools Grant program	-\$102.6 ^a	—	-\$50.0	Provides sufficient funding only to support already participating schools.
239	Discretionary attendance-related adjustments	—	-8.1	-8.1	Achieves savings from 21 programs that do not have statutorily required growth adjustments.
240	Economic Impact Aid (Growth)	—	13.0	13.0	Funds statutorily required growth adjustment.
243	Deferred Maintenance	—	-142.6 ^a	-57.5 ^a	
245	Community-Based English Tutoring	15.1	50.0	15.1	Takes lower of two houses to minimize ongoing shortfall.
CCC					
272	Rebenching apportionments	-\$80.0	-\$40.0	-\$80.0	Aligns funding with enrollment.
273	Enrollment growth	10.0	—	—	Accommodates all projected enrollment demand.
273	Enrollment growth	-1.6	—	-1.6	Aligns growth funding with anticipated demand.
274	Noncredit courses	—	18.0	—	Noncredit funding rate recently increased by statute. Should await results before further augmentation.
275.1	Part-time faculty benefits	— ^b	10.0	10.0	Both houses augment program. Ongoing funds more appropriate.
275.1	Textbook assistance for low-income students	1.9	— ^c	1.9	Both houses augment program. Ongoing funds more appropriate.
^a Represents ongoing shortfall to be backfilled with one-time funds. ^b Provides \$10 million one-time funding. ^c Provides \$5 million one-time funding.					

Proposition 98 One-Time Funding

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- ☒ The Governor provides \$803 million in one-time funds.
- ☒ Both houses reserve some one-time funds for future use, thereby spending less than the Governor.
- ☒ The Senate spends \$667 million in one-time funds.
- ☒ The Assembly spends \$655 million in one-time funds.

Proposition 98 One-Time Spending—Governor's Proposals

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- ☒ Governor provides no funding for mandates.
 - Leaves roughly \$365 million in unfunded prior-year mandates.
 - Leaves roughly \$185 million in unfunded 2007-08 mandates.
- ☒ Meets settlement requirement to provide funding for facility repairs at low-performing schools—Emergency Repair Program (\$196 million).
- ☒ Underbudgets state's K-12 declining enrollment adjustment for 2006-07 by at least \$50 million.
- ☒ Provides \$100 million for school safety plans, \$65 million for CalPADs support, and \$50 million each for community college career technical equipment and nursing programs.
- ☒ Funds about 15 other K-12 initiatives and five other CCC initiatives.

Proposition 98 One-Time Spending—Conference Issues

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- ☒ Both houses provide substantial amounts for K-14 mandates (Senate: \$149 million, Assembly: \$99 million).
- ☒ Both houses fund Emergency Repair Program (Senate: \$128 million, Assembly: \$139 million).
- ☒ Senate provides \$50 million to cover projected underfunding of K-12 declining enrollment adjustment for 2006-07.
- ☒ Senate's top three policy priorities are alternative education (\$30 million), teacher programs (\$25 million), and community college nursing/allied health programs (\$45 million).
- ☒ Assembly's top three policy priorities are preschool (\$20 million), English learner (EL) instructional materials (\$20 million), and community college nursing/allied health programs (\$49 million).

The LAO-Recommended Proposition 98 One-Time Package

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The LAO compromise:

- ☒ Spends at lower of two houses (Assembly).
- ☒ Builds on both houses' efforts to fund K-14 mandates (\$140 million).
- ☒ Funds Emergency Repair Program (\$122 million).
- ☒ Includes \$50 million to cover projected underfunding of K-12 declining enrollment adjustment for 2006-07.
- ☒ Supports both houses' efforts to fund community college nursing/allied health equipment (\$30 million).
- ☒ Of houses' K-12 priorities, pools monies to dedicate substantial resources to one of two top priorities.
 - In response to Senate actions, provides \$40 million for alternative education—intended to fund the first year of a three-year initiative.
 - In response to Assembly actions, provides \$19 million for EL instructional materials and \$1 million for a project to pilot new materials for EL students.

Proposition 98 Conference Issues—One-Time Funds

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(In Millions)

Page	Description	Governor	Senate	Assembly	LAO Compromise	Comment on Compromise
K-12						
247	High-Speed Network maintenance	\$1.9	—	\$1.9	\$1.9	Funds technology refresh needed to maximize reliability of existing network.
248	Alternative compensation planning	—	\$2.0	—	—	
249	Personnel Management Assistance	—	3.0	—	3.0	Funds existing teacher recruitment program (one of Senate's four teacher proposals).
249	Principal Training	—	2.5	—	—	
250	Emergency Repair Program	196.0	128.2	139.0	122.1	Technical: related to settlement.
250	Community Day School deficiencies	—	4.1	—	4.1	Covers deficiency of existing program.
251	K-12 mandates (balancer)	—	114.0	79.1	104.0	Funds bulk of 2005-06 mandate costs (already owed to districts).
251	English learner (EL) instructional materials	20.0	12.0	19.0	19.0	Funds Assembly's EL priority.
252	Backfill K-12 deferred maintenance	—	—	142.6	57.5	Uses to backfill ongoing shortfall.
252	Declining enrollment costs	—	50.0	—	50.0	Covers projected underfunding in 2006-07.
253	Alternative schools block grant	—	30.0	—	40.0	Funds Senate's alternative education priority.
254	Preschool infrastructure	—	—	20.0	—	
255	EL instructional material pilot	—	—	1.0	1.0	Funds Assembly's EL priority.
255	State special schools interpreters	—	—	0.3	0.3	Funds workload adjustment.
256	School site data workgroup	—	—	0.3	0.3	Strengthens fiscal transparency.
262	Encorps teacher training	—	12.0	—	—	
264	Math and science teacher recruitment	—	7.5	—	—	

Continued

